Report

of the

Examination of

Southeast Mutual Insurance Company

Waterford, WI

As of December 31, 2001

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 10, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

SOUTHEAST MUTUAL INSURANCE COMPANY
Waterford, WI

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on September 6, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws. The articles of incorporation were amended to add Waukesha County to the company's territory and to change the number of members on the board of directors from nine to seven.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Kenosha, Racine, Walworth, and Waukesha

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years, except commercial policies, which are for a term of one year, with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through six agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All lines of business, new and renewal	15%

Agents have authority to adjust losses up to $1,000. Losses in excess of this amount are adjusted by the agent in conjunction with a board member. Adjusters receive $35.00 for each loss adjusted plus $0.30 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Harold Ranke	Farmer	Waterford, WI	2003
B. Jean Schaal	Secretary, Southeast Mutual	Waterford, WI	2003
Elizabeth Weis	Treasurer, Southeast Mutual	Burlington, WI	2004
Clarence Daniels	Maintenance and Farmer	Burlington, WI	2004
Harvey Schaal	retired, deceased 4/6/02	Burlington, WI	2004
Willard Noble	Farmer	Burlington, WI	2005
Kenneth Hegeman	Factory worker and Farms	Kansasville, WI	2005

Members of the board currently receive $50.00 for each meeting attended and $0.30 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Willard Noble	President	$2,500
Harold Ranke	Vice President	250
B. Jean Schaal	Secretary	18,000
Elizabeth Weis	Treasurer	4,400

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Willard Noble, Chair
Harold Ranke
B. Jean Schaal
Elizabeth Weis

The Executive Committee is appointed in the annual meetings to be the Adjusting Committee, which meets on an as needed basis.

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$122,870	$69,851	563	$38,308	$1,232,007	$1,081,039
1997	122,889	78,703	591	31,881	1,262,876	1,111,524
1998	153,325	127,950	612	12,767	1,342,350	1,142,309
1999	150,693	129,729	603	13,700	1,354,610	1,139,805
2000	154,090	82,216	585	60,716	1,415,189	1,251,475
2001	144,196	120,968	597	9,201	1,424,065	1,254,533

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1996	$263,748	$135,315	$1,081,039	24.40%	12.52%
1997	255,423	127,844	1,111,524	22.97	11.50
1998	273,468	158,136	1,142,309	23.93	13.84
1999	283,430	152,073	1,139,805	24.87	13.34
2000	266,321	141,486	1,251,475	21.28	11.31
2001	290,508	155,705	1,254,533	23.16	12.41

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$69,851	$82,489	$122,870	56.85%	67.14%	123.99%
1997	78,703	80,520	122,829	64.08	65.55	129.63
1998	127,950	89,824	153,325	83.45	58.58	142.03
1999	129,729	77,602	150,693	86.09	51.50	137.59
2000	82,216	78,688	154,090	53.36	51.07	104.43
2001	120,968	78,154	144,196	83.89	54.20	138.09

Over the past five years, surplus has increased by 16.05% from $1,081,039 at the end of 1996 to $1,254,533 at the end of 2001. Admitted assets showed an increase of 15.59% over the same period. Net premiums written fluctuated over the five years for a total increase of 15.07% since the last examination. The loss, expense, and composite ratios have fluctuated over the five-year period. The loss and expense ratios ranged from as low as 53.36% and 51.07% respectively, to a high of 83.89% and 67.14% respectively. The composite ratios have ranged from a low of 104.43% in 2000 to a high of 142.03% in 1998. The company can have a combined ratio above 100% and still increase surplus because the company's accumulated surplus is large relative to premium, which provides substantial investment income. The company added Waukesha County to its territory in April of 1998.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	January 1, 2003, or any subsequent January 1, by either party giving at least 90 days advance written notice.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A - Excess of Loss
	Lines reinsured:	All casualty business written
	Company's retention:	$500 each and every loss occurrence including loss adjustment expenses up to an annual aggregate of retention equal to the lesser of $200,000 or 20% of the prior year policyholder surplus
	Coverage:	100% of loss in excess of $500 each and every loss occurrence subject to the following limits: a. $1,000,000 per occurrence, single limit, combined injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	75% of written liability premium
	Ceding commission:	None
2.	Type of contract:	Class B – First Surplus
	Lines reinsured:	All property business written
	Company's retention:	(a) When net retention is $200,000 or more in respect to a risk, the company may cede on a pro rata basis up to $800,000 (b) When net retention is $200,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of risk. (c) Annual aggregate deductible of 10% of losses and LAE which would otherwise be ceded under the

contract. This is waived if the ultimate net loss of the company exceeds the combination of Excess of Loss retention and any Excess of Loss annual aggregate deductible specified in the C-1 First Layer Excess of Loss.

Coverage: Pro rata portion of every loss, including loss adjustment expense corresponding to the amount of risk ceded.

Reinsurance premium: 100% of property business unearned premium

Ceding commission: Sliding scale commission minimum of 15% of the premium ceded, adjusted to a maximum of 35%, depending on the loss ratio.

3. Type of contract: Class C-1 – Excess of Loss First Layer

Lines reinsured: All property business

Company's retention: An annual aggregate aggregate deductible of $25,000 and $25,000 per loss.

Coverage: 100% of any loss in excess of retention up to $75,000, excluding LAE.

Reinsurance premium: NPW X [sum of prior four years' losses incurred by the reinsurer, divided by the total net premiums written for the same period, multiplied by 100/80]
Minimum rate: 7% of NPW
Maximum rate: 19% of NPW

Rate for the current annual period is 8.5%

Ceding commission: None

4. Type of contract: Class C-2 – Excess of Loss Second Layer

Lines reinsured: All property business

Company's retention: $100,000 per risk per loss occurrence

Coverage: 100% of any loss, excluding LAE, in excess of $100,000 per risk, subject to a limit of $100,000 in respect to one loss occurrence.

Reinsurance premium: 6% of property NPW, rounded to the nearest $100.

Ceding commission: None

5. Type of contract: Class D/E – Stop Loss

Lines reinsured: All business written

Company's retention: Annual aggregate losses, including LAE up to 80% of NPW, subject to a minimum retention of $120,000.

Coverage:	100% of annual aggregate net loss in excess of retention.
Reinsurance premium:	Sum of prior eight years' losses incurred by the reinsurer divided by the total net premiums written for the same period, multiplied by 100/80 Minimum rate: 7.5% Maximum rate: 25.0% Rate for the current annual period is 7.5%
Ceding commission:	None

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Southeast Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited at Interest	$ 66,285	$	$	$ 66,285
Bonds (at Amortized Cost)	785,529			785,529
Stocks or Mutual Fund Investments (at Market)	507,682			507,682
Premiums and Agents' Balances In Course of Collection	8,570			8,570
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	33,014			33,014
Investment Income Due or Accrued		$12,258		12,258
Reinsurance Recoverable on Paid Losses and LAE	1,590			1,590
Other Assets:				
Reinsurance Contingent Commission Receivable	9,037			9,037
Prepaid Expense	100			100
TOTALS	$1,411,807	$12,258	$	$ 1,424,065

Liabilities and Surplus

Net Unpaid Losses	$ 38,921
Unpaid Loss Adjustment Expenses	1,470
Commissions Payable	7,300
Fire Department Dues Payable	1
Unearned Premiums	112,645
Reinsurance Payable	5,650
Other Liabilities:	
Expense Related	
Accounts Payable	332
Refunds Payable	253
Nonexpense Related	
Premiums Received in Advance	2,960
TOTAL LIABILITIES	169,532
Policyholders' Surplus	1,254,533
TOTAL	$1,424,065

Southeast Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	$ 144,196
Deduct:	
Net Losses Incurred	111,127
Net Loss Adjustment Expenses Incurred	9,841
Other Underwriting Expenses Incurred	78,154
Total Losses and Expenses Incurred	199,122
Net Underwriting Loss	(54,926)
Net Investment Income:	
Net Investment Income Earned	63,417
Total Investment Income	63,417
Other Income:	
Miscellaneous Income	845
Bad Debts	(135)
Total Other Income	710
Net Income	$ 9,201

Southeast Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	**1998**	**1999**	**2000**	**2001**
Surplus, beginning of year	$1,081,039	$1,111,524	$1,142,310	$1,139,805	$1,251,475
Net income	31,881	12,767	13,700	60,716	9,201
Net unrealized capital gains or (losses)	(2,632)	16,580	(16,840)	50,954	(6,143)
Change in non-admitted assets	1,236	1,439	635		
Surplus, end of year	$1,111,524	$1,142,310	$1,139,805	$1,251,475	$1,254,533

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. EDP Environment—It is recommended that the company establish a procedure in which its daily backed-up data is kept in a safe place separate from the location where the computer is kept.

   Action—Compliance.

2. Disaster Recovery Plan—It is recommended that the company develop an adequate disaster recovery plan which identifies steps to be taken in case a key employee of the company is lost.

   Action—Compliance.

3. Bonds—It is recommended that the company develop a plan to bring its investments in collateral mortgage obligations or tranche bonds into compliance with s. Ins 6.20 (6) (d) (8), Wis. Adm. Code, and submit the plan to this office for review.

   Action—Compliance.

4. Unpaid Losses—It is recommended that the company maintain a separate file for each claim reported on the loss register to provide an audit trail to follow.

   Action—Compliance.

5. Unearned Premium—It is recommended that the company submit a letter requesting approval from the Commissioner of Insurance to use the pro rata method of calculation unearned premium reserve, pursuant to s. Ins 13.08 (4), Wis. Adm. Code.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have not been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code. It is recommended that the company file biographical data in accordance with s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$100,000 single loss limit of liability
Combined Professional & D&O Liabililty	$1,000,000 each claim & in aggregate
Workers' Compensation	Statutory requirements
Employers Liability	$100,000 BI by accident each accident $500,000 BI by Disease policy Limit $100,000 BI by Disease each employee

Underwriting

The company has a written underwriting guide. The guide does not cover all the lines of business that the company is presently writing. Since the company does not have a written underwriting guide, consideration should be given to the establishment of such a guide.

The company does not have a formal inspection procedure for both new and renewal business. It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$469,532
2.	Liabilities plus 33% of gross premiums written	265,400
3.	Liabilities plus 50% of net premiums written	247,385
4.	Amount required (greater of 1, 2, or 3)	469,532
5.	Amount of Type 1 investments as of 12/31/2001	686,417
6.	Excess or (deficiency)	$216,885

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$66,285**

The above asset is comprised of the following types of cash items:

Cash deposited in banks at interest	$ 66,285
Total	$ 66,285

Cash deposited in banks represents the aggregate of three deposits in three depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled $5,904 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.7% to 6.65%. Accrued interest on cash deposits totaled $1,293 at year-end.

Book Value of Bonds **$785,529**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are held in a custodial account.

Bonds were traced to the year-end custodial statement without exception. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to $56,200 and was traced to cash receipts records. Accrued interest of $10,965 at December 31, 2001, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$507,682**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are held in a custodial account or are located in a safety deposit box at the company’s bank.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with

Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.Dividends received during 2001 on stocks and mutual funds amounted to $13,145 and were traced to cash receipts records. There were not any accrued dividends at December 31, 2001.

Agents' Balances or Uncollected Premiums $8,570

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Booked But Deferred and Not Yet Due $33,014

The above asset represents premiums which are receivable from policyholders but which are not yet due as the policyholder has chosen a semiannual, quarterly, or monthly billing mode. The company calculated this amount using modal premium information. A review of the procedure used determined the amount and calculation to be reasonable.

Investment Income Due and Accrued $12,258

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Accrued Interest Cash Deposited at Interest	$1,648
Accrued Interest Bonds	10,965

Reinsurance Recoverable on Paid Losses $1,590

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2001. A review of year-end accountings with the reinsurer verified the above asset.

Reinsurance Contingent Commissions Receivable $9,037

The above asset represents reinsurance ceding commission due to the company from the reinsurer on the company’s class B – First Surplus reinsurance contract. The reported balance equals net sliding scale commission for the year 2001 in excess of the monthly provisional commission of 15% allowed on ceded premium during the year. The balance was verified by review of year-end reinsurer's accounting and was traced to subsequent 2002 cash receipts.

Prepaid Expenses **$100**

This asset consisted of a deposit paid for the meeting place used for the company's annual meeting. In accordance with annual statement requirements, this amount should have been expensed or shown as an asset not admitted. Due to its immateriality no adjustment will be made for this examination.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$38,921**

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$42,766	$43,378	($ 612)
Less:			
Reinsurance Recoverable on Unpaid Losses	3,845	544	3,301
Net Unpaid Losses	$38,921	$42,834	($3,913)

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. To the actual paid loss figures was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date, if any. The above difference of $3,913 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$1,470**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to use an estimate of $35 for each claim open at year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$7,300**

This liability represents amounts due to the company's agents at December 31, 2001. Recalculation and a review of supporting records and subsequent cash disbursements verified this amount.

Fire Department Dues Payable **$1**

This liability represents the fire department dues payable at December 31, 2001.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$112,645**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$5,650**

This liability consists of amounts due to the company's reinsurer at December 31, 2001, relating to transactions which occurred on or prior to that date. These amounts consist of the estimated payable amount at year-end based upon the reinsurer's adjusted calculations. Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Accounts Payable **$332**

This liability represents bills that were payable at December 31, 2000. Supporting documents verified this amount.

Refunds Payable **$253**

This liability represents premium refunds that were payable to insureds at December 31, 2000. Supporting documents verified this amount.

Advanced Premiums **$2,960**

This liability represents the premium paid in advance. It was verified by comparing the list for advance premiums to cash receipts.

V. CONCLUSION

There were two recommendations and no adjustments to surplus as a result of this examination. The company was in compliance with all of the prior examination recommendations. The recommendations relate to filing biographical data with the commissioner, and establishing a formal inspection procedure for new and renewal business.

Over the past five years, surplus, admitted assets, and premium have all increased by greater than 15%. The loss, expense, and composite ratios have fluctuated over the five-year period. The company can have a combined loss ratio well above 100% and still increase surplus because the accumulated surplus is large relative to premium, which provides substantial investment income.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 — Corporate Records—It is recommended that the company file biographical data in accordance with s. Ins 6.52, Wis. Adm. Code.

2. Page 17 — Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Don Gasser of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Kerri L Miller
Examiner-in-Charge